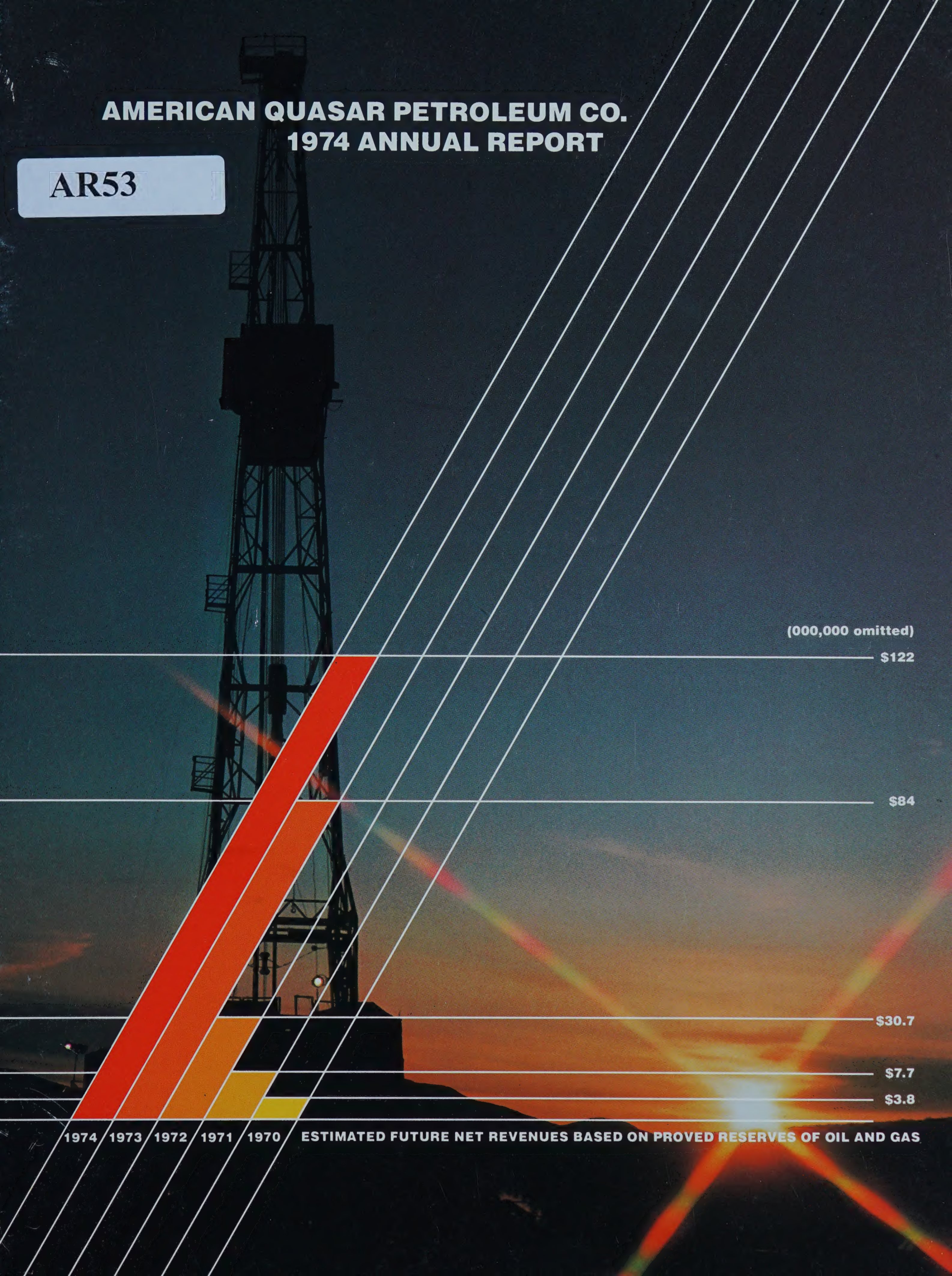
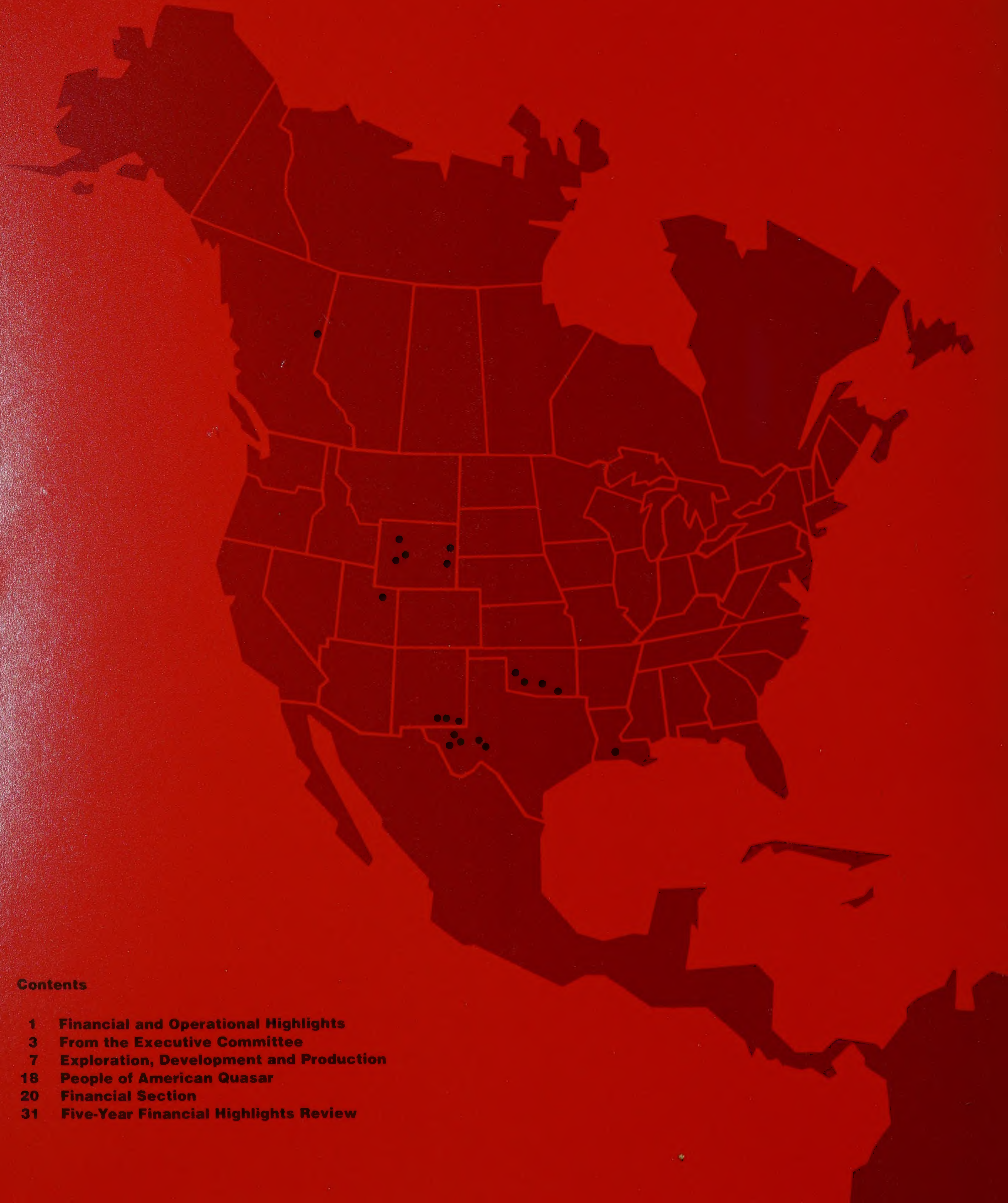
AMERICAN QUASAR PETROLEUM CO.
1974 ANNUAL REPORT



Current American Quasar Exploration Prospects

These 20 exploratory operations by American Quasar and its industry partners represent a drilling investment of approximately $40.0 million.



Contents

AMERICAN QUASAR INDUSTRIAL CONCEPT

American Quasar Petroleum Co. is an oil and gas exploration and production company formed in Fort Worth, Texas in 1969. Our exploration concept is founded on sound basic ideas and the following operational premise:

1) A large portion of the remaining oil and gas reserves on the North American Continent is located at depths in excess of 15,000 feet in remote areas. The odds of finding large hydrocarbon reserves in these areas are substantially better than in the more exploited shallow-to-medium-depth areas.

2) The shortage of energy would create a condition of escalating prices and transactions favorable to producers of new oil and natural gas reserves.

3) Exploration for large hydrocarbon reserves in deep and/or remote areas is very costly. Adequate exposure to this kind of exploration would require large amounts of capital, and the source of this capital would be the public.

4) It takes good experienced personnel with high qualifications to meet our demands and we endeavor to have only the best.

American Quasar originates exploration projects, supervises the drilling and completion of wells and the production of hydrocarbons in the United States. In Canada, Quasar Petroleum Ltd., an 81%-owned subsidiary, performs similar activities. Canadian-American Resources Fund, Inc., ("Can-Am") a wholly-owned subsidiary, was formed to raise large sums of public capital by sponsoring limited partnerships to engage in joint venture exploration and development activities conducted by the Quasar companies.

Annual Meeting:

The annual meeting of shareholders will be held at 4 p.m. Wednesday, May 21, 1975, in the Horizon Room of the Fort Worth Club, Fort Worth, Texas.

Cover:

The sunburst at dusk behind our Pineview confirmation project in Summit County, Utah, is symbolic of quasars—which until recently were the largest single source of energy discovered in the universe — from which the Company derives its name. This well, the UPRR 3-1, is currently drilling to a projected depth of 10,000 feet. Our Pineview-Newton Sheep prospect was one of the Company's most important discoveries in 1974.

The graph overlay dramatically shows American Quasar's growth in future net revenues based on estimated proved reserves of oil and gas. In only five years, estimated future net revenues increased from $3.8 million to $122 million. Future gas prices are based on contract provisions including escalation and renegotiation features. Oil revenue forecasts assume a reduction in "new oil" prices to $8 a barrel in mid-1975, followed by a 10% annual escalation to $11 a barrel. "Old oil" prices are estimated to escalate 10% annually from current prices to $11 a barrel. Information on estimated future net revenues was provided by independent petroleum engineers.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Dollars in Thousands)	1974	1973	% Increase
OPERATIONS			
Total revenues	**$ 8,221**	$ 3,077	167%
Net income	**$ 1,731**	$ 133	1202%
Working capital provided by operations	**$ 2,577**	$ 820	214%
Net production:			
Oil (barrels)	**272,000**	289,978	(6%)
Gas (billions cu. ft.)	**7.11**	3.47	105%
AT YEAR-END			
Total assets	**$58,658**	$36,106	62%
Shareholders equity	**$ 6,879**	$ 5,018	37%
Shares of common stock outstanding	**4,352,000**	4,335,000	
Net proved reserves:			
Oil (barrels)	**2,100,000**	1,675,000	25%
Gas (billions cu. ft.)	**150**	122	23%
PER SHARE			
Net income	**$ .40**	$ .03	1233%
Shareholders equity	**$1.58**	$1.16	36%

HIGH-LOW BIDS ON AQP SHARES BY QUARTERS FOR 1974-1973

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	High	Low	High	Low	High	Low	High	Low
1974	15½	12¾	13½	10¼	11½	6¼	13	6¾
1973	20	12¾	18½	12¼	15¼	10½	17½	12½

American Quasar shares are traded principally on the over-the-counter market and quoted on NASDAQ. Figures here represent the high and low bid quotes which occurred at some point within the quarter and not necessarily on the last day of the quarter.

FROM THE EXECUTIVE COMMITTEE

American Quasar achieved record earnings and revenues during 1974. Estimated future net revenues from proved reserves of oil and gas continued to increase for the fifth consecutive year.

The Company had consolidated estimated proved oil reserves of 2,100,000 barrels and consolidated estimated proved gas reserves of 150 billion cubic feet as of December 31, 1974. This compares to estimated reserves of 1,675,000 barrels of oil and 122 billion cubic feet of gas as of December 31, 1973.

The Company's consolidated revenues from sale of oil and gas in 1974 was $7,282,000, compared to $2,487,000 in 1973. Consolidated net income was $1,731,000 in 1974, compared to $133,000 in 1973. Working capital provided by operations was $2,577,000 in 1974 compared to $820,000 in 1973.

Production of natural gas doubled during 1974 — 7.13 billion cubic feet compared to 3.47 billion cubic feet in 1973; oil production remained approximately the same. The Company's average daily production for December 1974 was 833 barrels of oil and 23.9 million cubic feet of gas, compared to a December 1973 daily average of 831 barrels of oil and 13.7 million cubic feet of gas.

During 1974, Can-Am sponsored public limited partnerships aggregating $48.2 million which made it the largest sponsor of public limited partnerships in the nation for the second consecutive year. Through December 31, 1974, Can-Am had sponsored a total of approximately $129 million in 14 public limited partnerships with approximately 14,000 limited partners. The limited partnerships formed by Can-Am participate in joint venture drilling, development and production activities with the Company and its subsidiaries. (See "Description of Joint Venture Agreements" page 21 herein for a detailed discussion of joint ventures.)

The Company's estimated future net revenues from proved oil and gas reserves as of December 31, 1974 was $122 million. The present worth (discounted at 10%) of these reserves was $70 million. In four years, American Quasar has increased its future net revenues from proved reserves from $3.8 million to $122 million. Although this has been influenced to some degree by price increases for hydrocarbons, the growth primarily is attributable to discovery and partial development of 29 new oil fields and 43 new gas fields. Successful development of the Company's existing fields potentially could more than double the Company's estimated proved quantities of oil and gas.

American Quasar and its subsidiaries participated in the drilling of 80 wells commenced in 1974, of which 47 were exploratory wells. Of the 30 exploratory wells completed by March 31, 1975 (17 were still drilling), eight resulted in new oil fields and five resulted in new gas fields. This exploratory success ratio of 43% is substantially above the composite industry ratio for the U. S. and Western Canada which has ranged from 10% to 15% during the past several years. The projected depths of these 80 wells totals 925,103 feet, or an average depth of 11,564 feet per well. In 1974, American Quasar used in excess of 10 thousand tons of oil field tubular goods.

During 1974 the joint venture budget for exploratory wells was $45 million while the joint venture development budget was $11 million. This exploratory drilling budget was larger than some of the major oil companies' domestic exploratory drilling budgets.

American Quasar expended $1.9 million on seismic exploration and $3 million on leasehold acquisition in 1974. In 1975 the Company plans an additional investment of over $2 million on seismic and more than $4 million for new leases. Also planned are expenditures of approximately $15 million for joint venture drilling operations in existing fields during 1975.

The executive committee of American Quasar Petroleum Co., left to right are: Wilford B. Fultz, David A. McMahon, Walter A. Schmid, Jr., Dick Lowe and C. O. Ted Collins, Jr.

Can-Am plans to fund approximately $45 million in public limited partnerships during 1975. The joint venture drilling budget for 1975 exploration is estimated to be approximately 40% for West Texas, Southeast New Mexico and Western Oklahoma; 35% for the Rocky Mountain area; and 25% for the Gulf Coast area.

In view of the recently enacted Canadian Budget which places certain economic burdens on oil and gas income when coupled with the burdens of provincial taxes and other Canadian governmental regulations with regard to the petroleum industry, joint venture exploration activities in Canada will be limited during 1975. Quasar Petroleum Ltd. plans to concentrate on the development of its existing oil and gas fields and placement of its existing shut-in oil and gas reserves on production.

In summary, 1974 was a good year for American Quasar and we expect 1975 to be better.

Respectively submitted by the executive committee:

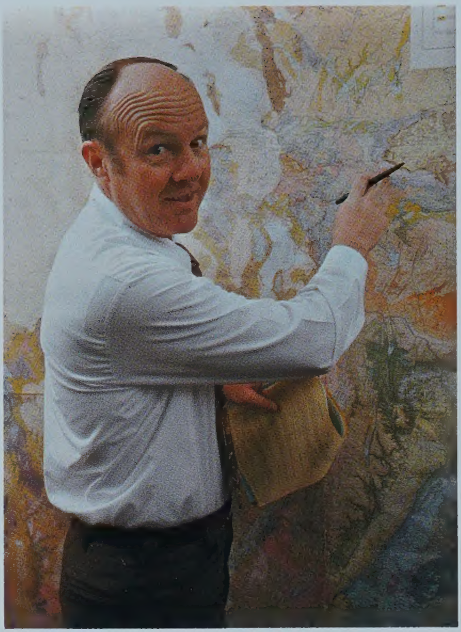
Wilford B. Fultz
Chairman of the Board

David A. McMahon
Vice Chairman of the Board

Walter A. Schmid Jr.
Chairman of the Executive Committee

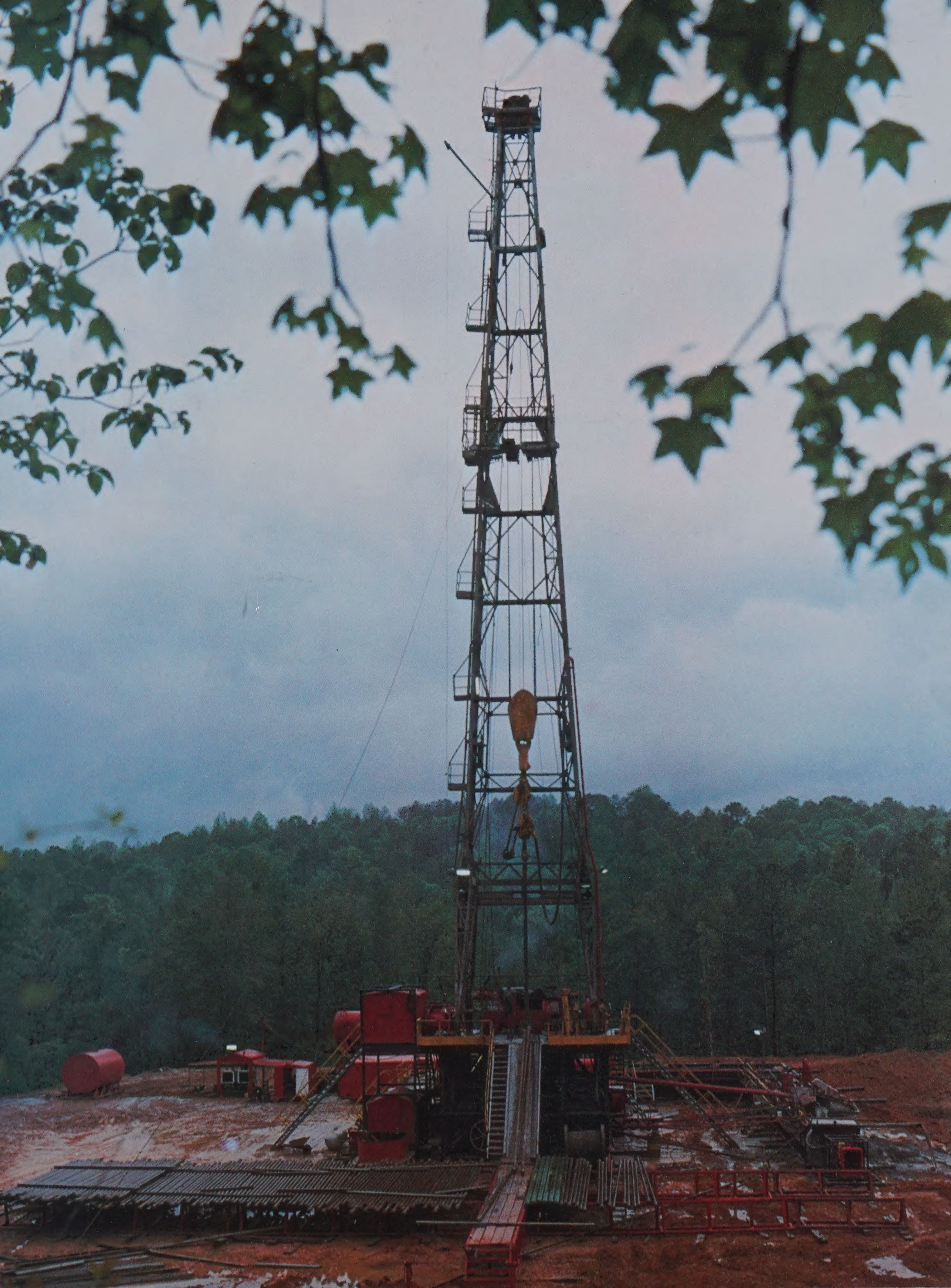
Dick Lowe
President

C. O. Ted Collins Jr.
Executive Vice President



Above: Clare Gregg, Rocky Mountains Division Geologist, Denver

At right: The Henderson 1-9 was spudded in Mississippi shortly after the beginning of the year on 720 gross acres in Wayne County which was the site of a Cotton Valley formation discovery in 1974.




CAUTION
HARD HAT
AREA

American Quasar and the limited partnerships, had a drilling budget in 1974 of $56 million. Our exploration effort was concentrated primarily on the deeper known producing formations having potentially large hydrocarbon reserves in the Delaware Basin of West Texas and New Mexico, the Powder River and Big Horn Basins of Wyoming, the Greater Green River Basin of Wyoming and Utah, the Anadarko Basin of Northwest Texas and Oklahoma and the gulf coast area of Louisiana, Mississippi and Alabama.

During 1974, additional geologists and geophysicists with known oil finding ability and years of experience in our areas of concentration were added to the exploration staff. Geophysical crews were contracted for the first time on an annual basis in order to more closely work with Company personnel and to evaluate the increasing number of prospects in our exploration programs.

We placed 41 wells on production during the year which appreciably increased our daily production of oil and gas. In 1975 we expect our development activities to increase and yield a corresponding increase in production and revenues. New discoveries from our exploratory wells could add to this increase. Escalating prices in 1974 have also resulted in increased revenues and we expect this to continue in 1975, particularly in the marketing of natural gas.

To manage our expanded exploration and development drilling and to efficiently operate our growing list of producing wells, we have again in 1974 added experienced engineers and operating personnel of proven ability.

Our intention for 1975 is to again direct a major portion of the joint venture exploration budget to areas which we believe to hold the greatest potential for finding large reserves of oil and gas.

Above right: John Trenchard, Southeast Division Landman, New Orleans

At left: Tubing is being removed from the hole on our Ross Federal #1 in the North Ross prospect of Campbell County, Wyoming, in one of the final steps in completing the well. Testing continues on this installation and indications are that it will be a producing well.

Exploration and development highlights for 1974 in primary areas are as follows:

Texas — Oklahoma — New Mexico

American Quasar drilled 19 exploratory and 27 field wells in this three-state area during 1974. An additional 15 wells were commenced and still drilling at year end.

The Deep Delaware Basin of West Texas is our principal area of interest in the three-state area. The potential for discovery of major hydrocarbon reserves at depths ranging from 15,000 to 23,000 feet remains better in this area than for most onshore provinces of the United States. The principal drilling objectives of this area are the Devonian, Fusselman and Ellenburger formations. American Quasar completed 14 wells in this province during 1974 with significant gas wells being completed in the Quito, North Worsham, and Block 16 fields.

The Quito field, our first major gas discovery in 1971, continues to be our largest revenue producer. Gross production here averaged 47 million cubic feet of gas per day during 1974.

We currently have three wells producing from the Fusselman and two from the Devonian reservoirs in the North Worsham field of Reeves and Ward Counties. Two of these operations are dual completion wells — those producing from two reservoirs from the same bore hole. Current gross production is 6 million cubic feet of gas per day. At this time we are drilling the Worsham 1-23, in this field, as a projected 17,500 foot Fusselman test. Two additional wells are planned in 1975.

One well is planned during 1975 for the San Martine field, our most significant gas discovery of 1973, where we participate in two Fusselman gas wells jointly producing 26 million cubic feet of gas per day.

The Company's 13 wells in the Davidson Ranch field were placed on production in 1974 and are delivering 3.2 million cubic feet of gas and 70 barrels of oil per day. Five additional wells are

Above: A. H. (Bud) Hurley, Rocky Mountains Division Operations Manager, Casper

At left: American Quasar drilled 925,103 feet of hole in 80 wells the Company commenced in 1974. The total hole drilled would exceed 175 miles. Pipe in photo was used at a Company prospect in Campbell County, Wyoming.

planned for immediate 1975 drilling and the Company has additional acreage for further drilling.

The Gillispie #1-2, an apparent important oil discovery in the Anadarko Basin of Oklahoma, was completed flowing 372 barrels of oil per day from the Pennsylvania Cottage Grove Sand (perforations at 8,568-8,628 feet). American Quasar and the joint venture limited partnership own a 50% working interest in this well and in over 8,000 acres of leases in the immediate vicinity. In 1975 we plan to drill a 10,000 foot confirmation to this discovery.

Completion tests are under way on a possible Ordovician Bromide Sand oil discovery in Marshall County, Oklahoma. The American Quasar #1 Pate flowed oil from the Bromide Sand (perforations at 7,692-7,754 feet) and has additional possible oil or gas pays in the Woodford and Sycamore horizons at depths above the Bromide zone. American Quasar has leasehold interests in over 1,000 acres around this well and if subsequent testing continues to be encouraging, confirmation wells will be drilled soon.

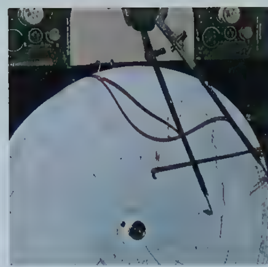
The Company completed four gas wells and one oil well in the South Harmon-West Vici area in the Anadarko Basin of western Oklahoma. These wells, and one previously completed but shut-in, were placed on production in 1974.

Additional Oklahoma development is planned for 1975.

A possible gas discovery is being completed in the Morrow Trend of Eddy County, New Mexico (latest report was a flow rate of approximately 1.7 million cubic feet of gas per day). American Quasar has varying leasehold interests in over nine sections adjoining this well with development potential.

Southeastern States

Exploration efforts in the southeastern states for 1974 resulted in five discoveries. Two of the successful wildcats were located in the Jurassic Trend with the remaining three being completed from Miocene Sands in south Louisiana.



Above:
Herb Ware, American Quasar Chief Geologist, Midland

At right: One of the largest rigs operating in the U.S. is drilling for American Quasar in Beckham County, Oklahoma. The rig is capable of drilling in excess of 30,000 feet (almost 5 miles) and at the time of this report had surpassed 25,000 feet.

Billion Cubic Feet
150
122
.5
2,100
1,790
1,675
1,166
914
1974
1973
1972
1971
1970
ESTIMATED NET PROVED OIL RESERVES
IN THOUSANDS OF BARRELS

A very promising discovery was made in the West Fannie Church area in Escambia County, Alabama, where the Company has a 20% interest in some 2,200 acres. The #1 Scott was tested flowing 1,014 barrels of oil and 3.1 million cubic feet of gas per day from perforations in the Smackover Formation. The Company is currently drilling with partners the St. Regis Paper Co. #1, projected to 16,000 feet as a west offset to the discovery well. A previous offset to the east of the discovery was unsuccessful. Additional potential development possibilities exist in this area on a 160-acre spacing pattern.

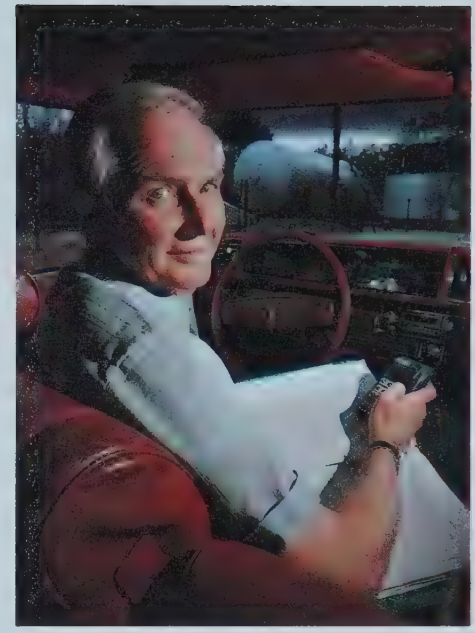
The 1974 discovery at the Bayou Citamon field, St. James Parish, Louisiana, has been placed on production at 900 thousand cubic feet of gas and 17 barrels of oil per day. Our 1974 discovery at Bayou Boeuf field, LaFourche Parish, Louisiana, will be placed on production in 1975.

The Company has a 40% working interest in 720 gross acres in the Diamond field of Wayne County, Mississippi which was the site of a Cotton Valley discovery. The McIlwain #1 encountered multiple pays and was completed at 12,500 feet flowing 179 barrels of oil per day. Additional development is planned on 80-acre spacing.

Exploration emphasis for 1975 will continue in the Jurassic Trend of Mississippi, Alabama, Florida and Miocene, Oligocene play of south Louisiana where the potential for substantial reserves are promising.

Rocky Mountain States

In the 1973 American Quasar Annual Report the Patterson #1 well, Converse County, Wyoming, was mentioned as having blown out and caught fire, then subsequently brought under control. This well was later cleaned out and drilled to the Morrison formation at 14,199 feet and plugged back to the Frontier Sand at 12,850 feet and potentialed as a flowing oil well for 2,000 barrels of oil plus 4 million cubic feet of gas per day with a flowing tubing pressure of 3,000 lbs.



Above: Harold Mayer, Southeast Division Operations Manager, Jackson

At left: With reservoir pressures necessitating artificial lift procedures, the pumping unit works at our 1974 discovery in the Diamond field of Wayne County, Miss. Our McIlwain #1, pictured, is producing 179 barrels a day from 12,500 feet and a confirmation is currently being drilled.


(000 omitted)
1972
TOTAL OIL AND GAS REVENUES

Activity in this area was expanded during 1974 and we currently have four wells completed (2 producing) and are in the process of completing three others. Current gross production from this area is 1,100 barrels of oil and 3 million cubic feet of gas per day and after hookup of the remaining wells we expect gross production to exceed 2,000 barrels of oil and 5 million cubic feet of gas per day. Additional drilling is planned for the area in 1975.

In the Green River Basin, our Browning #1 discovery well, Carbon County, Wyoming, was dually completed and placed on production from the Tensleep sand at 11,000 feet and the Morrison sand at 9,160 feet. The Tensleep was completed for 1.7 million cubic feet of gas plus 343 barrels of condensate per day. The Morrison sand was completed for 2.1 million cubic feet of gas per day. Currently, the Morrison sand is shut-in and a workover appears necessary to solve mechanical problems. Early in 1975 we drilled one dry offset to this well, and no additional development is planned for the year.

One of our biggest discoveries in 1974 was the Newton Sheep #1 in northeast Utah's Summit County. This well tested 540 barrels of oil and 300 thousand cubic feet of gas per day and 226 barrels of water per day from perforations in the Nugget sand on an apparent large geological structure with deeper unknown reservoirs yet to be tested. Deeper potentials are believed to exist and a deep exploratory test well is planned for 1975. The Union Pacific 3-1 is currently drilling to a projected depth of 10,000 feet in the Nugget sand as an offset confirmation well to the Newton Sheep #1.

Canada

Four wells were successfully completed in the Medicine River and West Medicine River area of Alberta during 1974. Delineation drilling continued at our Grizzly field with the successful completion of one additional well. We also participated in placing the South Sylvan Lake gas processing plant on stream in 1974.

Above: Ed King, West Texas, Oklahoma, New Mexico Division Geologist, Midland

At right: Flowing well head pressure of 2,300 pounds indicates that all is well with our Patterson #1 in Converse County, Wyoming. In 1973 the well blew out and caught fire. After being brought under control, the well was cleaned out and potentialed as a flowing oil well for 2,000 barrels of oil and 4 million cubic feet of gas per day.

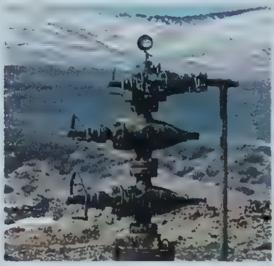
At left: Our isolated Wyoming Antelope Creek prospect, Union Federal #1, emphasizes one of our basic drilling philosophies: the greatest potential for finding large hydrocarbon reserves lies in remote areas where the physical difficulties of drilling and marketing have left the regions relatively unexplored. We believe these areas offer the most favorable risk-to-gain ratios for exploration.


(000 omitted)
$1,731
$133
0
($650)
($653)
($1,178)
1974 1973 1972 1971 1970
CONSOLIDATED NET INCOME (LOSS)

STATUS OF IMPORTANT FIELDS AS OF MARCH 31, 1975

Field Name	Location	WELLS: Successful Completions	WELLS: Drilling or Completing	WELLS: Planned for 1975	Field Status	GROSS PRODUCTION CURRENT: BOPD	GROSS PRODUCTION CURRENT: MMCFD	Weighted Average Net Revenue Interest	Current Gross Product Price		Next Gas Price Redetermination Date
								%	Gas Mcf	Oil BBL	
U.S.:											
Quito Fusselman	Texas	5	—	1	Producing	—	52	20	$0.75	—	10/1/75
									1.32	—	—
North Worsham	Texas	3 (2 dual)	1	3	Producing	—	7	23	1.26	—	6/1/75
San Martine	Texas	3	—	1	2 Prod, 1 S.-I.	—	25	22	1.22	$11.71	5/1/75
Spearhead Ranch	Wyoming	4	3	2	2 Prod, 2 S.-I.	1100	2	18	0.60	12.15	11/26/75
Davidson Ranch	Texas	13	—	5	Producing	—	3	31	1.51	11.56	8/1/75
Wynne	Texas	15	—	3	Producing	400	6	26	0.52	5.31	None
Pineview Prospect	Utah	1	1	2	Producing	400	—	17	—	12.15	—
Hale	Mississippi	3	—	—	Producing	520	—	21	—	11.65	—
Gomez	Texas	2	—	—	Producing	—	29	5	0.52	—	None*
Woodward-Ellis Area	Oklahoma	9	—	4	Producing	300	3	17	0.89	11.89	**
Block 16	Texas	2	—	—	Producing	810	33	5	1.44	11.89	8/1/75
Ojo Chiso	New Mexico	1	—	—	Shut-In	—	—	17	—	—	—
Fannie Church	Alabama	1	—	2	Shut-In	—	—	11	—	—	—
GarKent	Texas	1	—	3	Producing	70	—	29	—	11.56	—
Diamond	Mississippi	1	—	2	Producing	80	—	28	—	11.65	—
Browning	Wyoming	1	—	—	Producing	175	2	14	0.67	12.05	11/1/75
Aylesworth	Oklahoma	1	—	3	Producing	80	—	15	—	12.00	—
Canada:											
Grizzly Area	British Columbia	6	1	—	Shut-In	—	—	16	—	—	—
Sylvan Lake Area	Alberta	11	—	—	Producing	780	22	7	0.59	6.32	—

*FPC regulated
**Each year or highest price in area
MMCFD: Million cubic feet per day
BOPD: Barrels of oil per day



At right: One of our biggest discoveries in 1974 was the Newton Sheep #1, with the well head shown here. This Northeast Utah well tested 540 barrels of oil and 300 thousand cubic feet of gas per day with 226 barrels of water per day on an apparent large geological structure with deeper unknown reservoirs yet to be tested. An offset confirmation is currently drilling and is shown in the cover photograph.

At left: High pressure separators at a Southeastern location remove low volume, non-commercial gas which is flared in the background.

Employees who can meet the challenges of a constantly changing business environment are essential to the Company's continued and future growth. We are dependent upon people who are intelligent, energetic and enthusiastic in their particular jobs.

During 1974, the Company added 61 employees, whom we believe meet our criteria for excellence. Since 1970, our staff has increased from 28 employees to 166. These personnel have been added in all departments, with particular emphasis in our Exploration and Operations Group. This group is the division of employees responsible for the actual discovery and production of oil and gas.

In 1975 we shall continue to seek outstanding personnel with knowledge and experience who can help us reach our goals. For example, we will try to ensure that every geologist or engineer who joins American Quasar has at least 15 years' experience in the oil and gas industry, preferably with a major oil company, and with at least 10 years in the geological province in which he will be working. We also seek proven excellence in the ability of these professionals to find hydrocarbons.

Employee compensation in 1974 amounted to $3,125,577, an increase of $567,416 over 1973. Benefits to employees for the year came to $73,741. This was primarily in the form of insurance programs.

In our record year of 1974, we recognize more than ever that our achievements could not have been possible without the vigorous efforts of all employees. We acknowledge with thanks their determined and loyal contributions.

Two directors resigned during the year, and to Mr. Robert E. Kellerman of Fort Worth and Mr. Leon Levy of New York, we extend gratitude for their support to the growth of the Company.

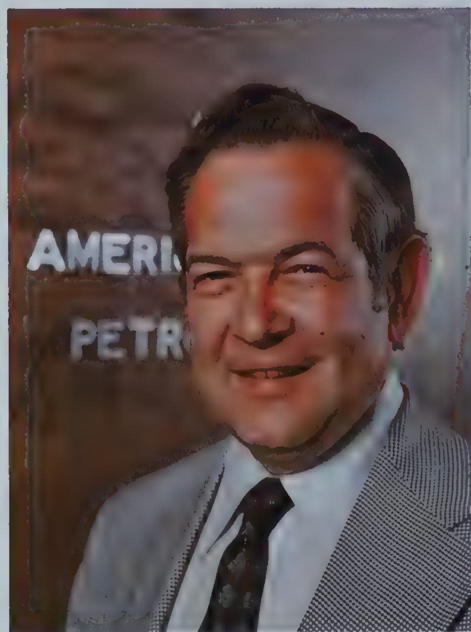
Right top: Jim Dickson, Rocky Mountains Division Manager, Denver

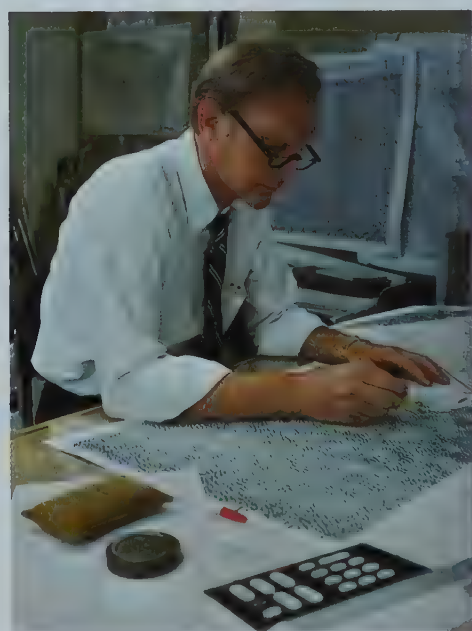
Right lower: Ed Woodruff, American Quasar Chief Geophysicist, Midland

Far right: W. H. (Bill) Bogert, American Quasar Manager of Operations, Fort Worth

With the exception of Mr. Robert G. McCulloch and Mr. Glenn C. Speakman, both of Toronto, Ontario, Canada, all other American Quasar board members are actively involved in the daily management of the Company.

Both Mr. McCulloch and Mr. Speakman are employed by Midland Doherty Ltd., a brokerage firm in Toronto. Mr. McCulloch is vice chairman and Mr. Speakman is a vice president and director of Midland Doherty.





Number of Employees
166
105
54
36
28
1974
1973
1972
1971
1970
GROWTH IN EMPLOYMENT

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, SPONSORSHIP OF LIMITED PARTNERSHIPS AND DESCRIPTION OF JOINT VENTURE AGREEMENTS

Significant Accounting Policies

The consolidated financial statements include the accounts of the Company's subsidiaries.

The Company and Quasar Petroleum Ltd. ("Canadian Quasar"), its 81%-owned Canadian subsidiary, conduct substantially all of their exploration and production activities through joint ventures with limited partnerships. The Company and Canadian Quasar, as operators of the joint ventures, have reflected in their financial statements their proportionate share of operations and 100% of the joint interest accounts payable and related joint interest accounts receivable. The Company and Canadian Quasar, as operators of such joint ventures, may advance funds or may request the limited partnerships to advance funds for drilling and production costs incurred and to be incurred on behalf of the limited partnerships. The excess of amounts expended over amounts received is reflected as limited partnership receivables while the excess of amounts received over amounts expended is reflected as limited partnership drilling advances.

Acquisition costs of undeveloped properties and related geophysical costs are capitalized. Such costs associated with productive properties are capitalized and depleted on a lease by lease unit of production method based on estimated recoverable reserves of oil and gas. The costs associated with properties which are drilled and abandoned are borne by the limited partnerships.

Productive properties are evaluated periodically on a group basis, and any excess of unrecovered costs, including equipment, of such properties over estimated future net revenues is reflected in operations. A group consists of certain related properties which were substantially developed when acquired, or consists of the Company's or Canadian Quasar's proportionate ownership of all joint venture properties with a particular limited partnership. Well equipment and gathering facilities are amortized on a straight line basis over the lesser of their estimated useful lives or the remaining life of the related property (3 to 20 years). Unrecovered costs of productive properties are charged to operations at the time they are determined to be uneconomical.

Accumulated depreciation and depletion is as follows:

	December 31	
	1974	1973
Accumulated depreciation	**$1,686,000**	$ 959,000
Accumulated depletion	**1,329,000**	1,062,000
	$3,015,000	$2,021,000

The Company's wholly-owned subsidiary, Canadian-American Resources Fund, Inc., ("Can-Am") has acquired interests in certain limited partnerships which it sponsored through direct investment in the partnerships when formed and by purchase of interests from limited partners. The direct investment, primarily representing drilling and exploration expenditures to be incurred, and the purchased interests, primarily representing acquisition costs of oil and gas reserves, are initially carried at cost. Commencing with the second full calendar year of each partnership's operations, Can-Am accounts for these investments on the equity basis. Prior to that time the partnerships' activities are generally of an exploratory and developmental nature and its operating results and Can-Am's proportionate ownership in such partnerships are not material.

The excess of Can-Am's investment over the underlying net assets of the limited partnerships (consisting primarily of the limited partnership's expenditures for all drilling and exploration activities, less partnership indebtedness) amounting to $715,000 at December 31, 1974, ($300,000 at December 31, 1973) is generally attributable to repurchasing interests from limited partners at amounts in excess of the underlying net book assets of the partnerships and is amortized over the estimated partnership future revenues.

Through December 31, 1974 Can-Am has repurchased interests and, as a result of repurchases and direct investment, has ownership interests as follows:

Partnership	Percentage of Partnership Owned	Repurchases Amount Paid (a) Low	Repurchases Amount Paid (a) High	Cumulative Investment
1970-1	21.6%	$4,850	$12,515	$642,000
1970-2	9.7%	5,065	14,800	213,000
1971-1	6.4%	4,700	5,155	164,000
1971-2	10.0%	6,135	6,950	246,000
1971-3	4.3%	5,795	7,600	158,000
1972-1	.7%	1,910	1,910	16,000
1972-2	.2%	1,155	1,155	5,000

(a) Based upon a formula contained in each limited partnership agreement for repurchase of a $5,000 unit, includes estimates and appraisals and is subject to varying discount rates as of the date the reports were prepared. Repurchase reports have not been issued for the 1972-3 and subsequent partnerships which Can-Am has made direct investments aggregating $557,000.

Net income per common share for 1974 and 1973 is based on the weighted average of shares outstanding during the period after considering outstanding options to purchase capital stock of the Company.

Certain of the accounts at December 31, 1973 have been reclassified to conform with the December 31, 1974 account classifications.

Sponsorship of Limited Partnerships

Can-Am is the managing general partner for limited partnerships previously formed and to be formed through April 30, 1975 and has full exclusive discretion in the management and control of such limited partnerships; Canadian Quasar serves as the non-managing general partner for the partnerships. Commencing with limited partnerships proposed to be formed subsequent to April 30, 1975, Can-Am Drilling Programs, Inc., a wholly-owned subsidiary of Can-Am, will serve as managing general partner and the Company will serve as non-managing general partner of such partnerships.

Can-Am is entitled to receive certain recurring incentive management fees from each partnership's operations. Such fees amounted to $506,000 and $431,000 during 1974 and 1973, respectively. Can-Am also received from certain of the partnerships when formed during 1974 and 1973 certain non-recurring management fees which amounted to $3,323,000 and $3,776,000, respectively, and incurred non-reimbursable overhead costs during such years of $2,890,000 and $3,617,000, respectively. Can-Am is also entitled to reimbursement of certain overhead costs incurred on behalf of the partnerships; such reimbursements amounted to $711,000 during 1974 and $523,000 during 1973.

Description of Joint Venture Agreements

The Company is party to various joint venture agreements with Can-Am. Among other things, the agreements grant limited partnerships sponsored by Can-Am the right to participate in all oil and gas prospects assembled by the Company.

The limited partnerships formed May, 1970 through March, 1974 pay certain costs deductible for United States income tax purposes and earn a 60% working interest in joint venture properties while the Company is committed to pay certain costs which are not deductible for United States income tax purposes and earns a 40% working interest in joint venture properties. Such limited partnerships are also charged with 60% of the shared costs and the Company is charged with 40% of the shared costs, being the costs of property and equipment acquired which are necessary and required for treating oil and gas production for market, the cost of any pipeline facilities required by a purchaser of production, the cost of secondary recovery systems, the cost of offshore production and storage platforms and related platform and gathering facilities, and the cost of any additional leases or leasehold interests purchased by a joint venture from third parties after a well on a drilling prospect has been drilled to a depth sufficient to indicate that such purchase would be in the best interests of the joint ventures. The limited partnerships' 60% portion of shared costs is paid only out of partnership revenues or borrowings. Such limited partnerships also bear 60% of the Company's overhead (including costs associated with properties which are not drilled and abandoned) allocated to the joint ventures.

The limited partnerships formed subsequent to April, 1974 invest their capital committed to the ventures for the deductible costs of drilling the initial phase wells ("Capital Wells"); nondeductible costs of Capital Wells completed as commercially productive are paid for by the Company. The interest of the Company with regard to the Capital Wells is 15 percentage points above the proportionate part of the costs of all Capital Wells paid by the Company. The Company is charged with 30% and the limited partnerships are charged with 70% of the costs of drilling additional wells, after a Capital Well or Wells have been completed on a prospect. Shared costs and overhead are shared in the same ratio. The interest of the Company in the Capital Wells after the limited partnerships have recovered their investment and in all additional wells is 45%.

Can-Am has advised Canadian Quasar that due to the adverse Canadian income tax consequences which would be applicable to its investors in the limited partnerships, substantially all of whom are individuals, and due to the burdens of provincial taxes, increased royalties and the current price freeze on oil, Can-Am anticipates that under present circumstances, few, if any, Canadian drilling prospects would be suitable for joint venture participation with the limited partnerships proposed to be formed.

Limited partnerships in 1974 and 1973 reimbursed the Company for overhead allocated to the joint ventures in the amount of $1,425,000 and $831,000, respectively.

AMERICAN QUASAR PETROLEUM CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1974	December 31, 1973
Current assets		
Cash	**$ 2,513,000**	$ 1,312,000
Accounts receivable		
Trade	**6,300,000**	3,853,000
Limited partnerships (Notes 1 and 3)	**7,453,000**	2,048,000
Total current assets	**16,266,000**	7,213,000
Oil and gas properties (Notes 3 and 6)		
Developed	**4,413,000**	3,290,000
Well equipment and treating facilities	**11,394,000**	6,634,000
Undeveloped	**9,256,000**	6,762,000
Drilling in progress and warehouse inventory	**4,961,000**	2,940,000
	30,024,000	19,626,000
Less accumulated depreciation and depletion	**3,015,000**	2,021,000
	27,009,000	17,605,000
Other assets		
Noncurrent receivables		
Limited partnerships (Notes 1 and 3)	**11,766,000**	9,888,000
Trade	**698,000**	—
Investment in limited partnerships (Note 3)	**2,065,000**	857,000
Other	**854,000**	543,000
	15,383,000	11,288,000
	$58,658,000	$36,106,000

The accompanying Summary of Significant Accounting Policies, Sponsorship of Limited Partnerships and Description of Joint Venture Agreements and Notes to Consolidated Financial Statements are integral parts of these financial statements.

LIABILITIES AND SHAREHOLDERS EQUITY

	December 31, 1974	December 31, 1973
Current liabilities		
Notes payable, including current portion of long-term indebtedness (Note 3)	**$10,761,000**	$ 1,495,000
Trade payables and accrued liabilities	**10,920,000**	6,534,000
Limited partnership drilling advances (Note 1)	**1,792,000**	966,000
Total current liabilities	**23,473,000**	8,995,000
Long-term indebtedness (Note 3)	**25,506,000**	18,855,000
Deferred federal income taxes payable (Note 5)	**150,000**	—
Advances from gas purchasers (Note 2)	**2,171,000**	2,638,000
Minority interest	**479,000**	600,000
Shareholders equity (Note 4)		
Common shares, without par value; 10,000,000 shares authorized; 4,367,254 shares issued (4,340,068 at December 31, 1973)	**2,968,000**	2,843,000
Less 15,059 treasury shares at cost	**2,000**	2,000
	2,966,000	2,841,000
Additional paid-in capital	**4,479,000**	4,474,000
Deficit	**(566,000)**	(2,297,000)
	6,879,000	5,018,000
Commitments and contingent liabilities (Note 8)		
	$58,658,000	$36,106,000

On behalf of the Board
Wilford B. Fultz, *Chairman of the Board*
David A. McMahon, *Vice Chairman of the Board*

Unique drilling control display panel confirms American Quasar's deep drilling philosophy. This is an ultra-deep operation exceeding 20,000 feet and was not at total depth at report time.

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

	Years Ended December 31, 1974	1973
Revenue		
Oil and gas sales	**$7,282,000**	$2,487,000
Management fees from limited partnerships less related expenses of $2,890,000 and $3,617,000 in 1974 and 1973, respectively	**939,000**	590,000
	8,221,000	3,077,000
Expenses		
Production and operating	**1,532,000**	753,000
Depreciation and depletion	**1,288,000**	913,000
Administrative	**1,789,000**	1,014,000
Interest, net of interest income	**1,856,000**	333,000
Minority interest in losses of subsidiary	**(125,000)**	(69,000)
	6,340,000	2,944,000
Income before tax	**1,881,000**	133,000
Provision for federal income tax — deferred	**150,000**	—
NET INCOME	**1,731,000**	133,000
Deficit — beginning of period	**2,297,000**	2,430,000
Deficit — end of period	**$ 566,000**	$2,297,000
Net income per common share	**$0.40**	$0.03

The accompanying Summary of Significant Accounting Policies, Sponsorship of Limited Partnerships and Description of Joint Venture Agreements and Notes to Consolidated Financial Statements are integral parts of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHARES, TREASURY SHARES AND ADDITIONAL PAID-IN CAPITAL

	January 1, 1973 to December 31, 1974 — Dollars: Common Shares	Dollars: Treasury Shares	Dollars: Additional Paid-in Capital	Shares: Common Shares	Shares: Treasury Shares
Balance — January 1, 1973	$2,782,000	($2,000)	$4,323,000	4,330,000	15,059
Increase in equity in net assets of subsidiaries resulting from sale of shares by subsidiary	—	—	151,000	—	—
Company shares issued for cash	61,000	—	—	10,068	—
Balance — December 31, 1973	2,843,000	(2,000)	4,474,000	4,340,068	15,059
Increase in equity in net assets of subsidiaries resulting from sale of shares by subsidiary	—	—	5,000	—	—
Company shares issued for cash	125,000	—	—	27,186	—
Balance — December 31, 1974	$2,968,000	($2,000)	$4,479,000	4,367,254	15,059

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31, 1974	1973
FINANCIAL RESOURCES WERE PROVIDED BY:		
Working capital provided by operations		
Net income before minority interest	$ 1,606,000	$ 64,000
Depreciation, depletion, exploration costs and other charges and credits not affecting working capital	971,000	756,000
Working capital provided by operations	2,577,000	820,000
Proceeds from long-term borrowings	14,769,000	15,982,000
Other	125,000	514,000
	17,471,000	17,316,000
FINANCIAL RESOURCES WERE USED FOR:		
Repayments of long-term borrowings	2,000,000	1,306,000
Increase in noncurrent trade receivables	698,000	—
Investments in limited partnerships	1,208,000	749,000
Expenditures in connection with oil and gas properties	10,398,000	11,395,000
Advances to limited partnerships (net of repayments)	1,878,000	6,973,000
Increase in current portion of long-term borrowings	6,118,000	349,000
Other	596,000	358,000
	22,896,000	21,130,000
Decrease in working capital during period	($ 5,425,000)	($ 3,814,000)

ANALYSIS OF CHANGES IN WORKING CAPITAL

	1974	1973
Current assets — increase (decrease)		
Cash	$1,201,000	($ 110,000)
Receivables		
— trade	2,447,000	2,687,000
— gas purchasers	—	(1,333,000)
— limited partnerships	5,405,000	907,000
— insurance claims	—	(1,117,000)
Current liabilities — (increase)		
Current portion of long-term indebtedness	(9,266,000)	(349,000)
Trade payables and accrued liabilities	(4,386,000)	(3,533,000)
Limited partnership drilling advances	(826,000)	(966,000)
Decrease in working capital during period	(5,425,000)	(3,814,000)
Working capital (deficit), beginning of period	(1,782,000)	2,032,000
Working capital (deficit), end of period	($7,207,000)	($1,782,000)

The accompanying Summary of Significant Accounting Policies, Sponsorship of Limited Partnerships and Description of Joint Venture Agreements and Notes to Consolidated Financial Statements are integral parts of these financial statements.

1. Receivables from Limited Partnerships

The Company has advanced and may continue to advance to the limited partnerships, funds for limited partnership drilling activities and operations; such advances are recoverable only out of limited partnership revenues, assets or other borrowings. Details of receivables from limited partnerships are:

	December 31, 1974	December 31, 1973
Secured by mortgages (a)	**$11,969,000**	$9,611,000
Unsecured (b)	**7,250,000**	2,325,000
	19,219,000	11,936,000
Less current portion	**7,453,000**	2,048,000
	$11,766,000	$9,888,000

(a) The Company has agreed with certain of the limited partnerships to advance funds to such limited partnerships in amounts based upon independent engineering evaluations of the limited partnerships' proved developed oil and gas properties. Such advances are secured by mortgages covering the limited partnerships' proved developed properties, are secured by the limited partnerships' other assets and bear interest at a rate equal to one-half of 1% above the interest rate which the Company pays to borrow funds from lending institutions.

(b) Such advances generally bear interest at the same interest rate which the Company pays to borrow funds from lending institutions.

The assets of the limited partnerships, consisting primarily of estimated future revenues from oil and gas properties based upon independent engineering reports, are deemed sufficient to assure repayment of the receivables.

2. Advances from Gas Purchasers

The Company has entered into gas purchase contracts for the sale of natural gas from certain leases located in Texas and has received advance gas payments aggregating $1,200,000. The gas purchaser is entitled to be repaid only out of 25-35% of the Company's share of revenues from the wells for the first five years and 100% thereafter until the advances are fully repaid. The unpaid balance of such advances at December 31, 1974 and 1973 is $481,000 and $948,000 respectively.

Quasar Petroleum Ltd. ("Canadian Quasar") has entered into a gas purchase contract for the sale of natural gas from certain Canadian leases and has received advance gas payments aggregating $1,690,000. The gas purchaser is entitled to be repaid out of 25% of revenues from the wells based upon the minimum contract quantities of gas delivered and 50% of revenues in excess thereof for the first five years and 50% of all revenues thereafter until 110% of the advances are fully repaid. The gas purchaser can only recover its advances from such portions of revenues from production. Under certain circumstances, the gas purchaser is entitled to receive interest on such advances, payment of which is secured by the leases and production therefrom with Canadian Quasar having no other obligation. Sales of gas have not yet commenced (Note 6).

3. Long-Term Indebtedness and Pledge of Assets

Notes payable consists of the following obligations:

	December 31, 1974	December 31, 1973
Banks (a)	**$29,600,000**	$17,431,000
Banks (b)	**2,855,000**	2,000,000
Trade creditors (c)	**2,621,000**	—
Banks (d)	**630,000**	—
Other	**561,000**	919,000
	36,267,000	20,350,000
Less current portion	**10,761,000**	1,495,000
	$25,506,000	$18,855,000

(a) During 1974, the Company entered into an agreement with certain banks and borrowed an aggregate of $30,000,000 bearing interest at 2% above the banks' prime rate of interest, a portion of which was used to repay then existing bank loans amounting to $23,576,000. The loan is repayable in monthly installments and the annual amounts of such installments are:

1975	$6,900,000
1976	7,800,000
1977	6,600,000
1978	6,000,000
1979	2,300,000

Among other things, the loan agreement contains certain restrictions on further borrowing, pledging or mortgaging of properties or assets, and on declaration of dividends. The indebtedness is secured by substantially all of the Company's oil and gas properties located in the United States, its investment in Canadian Quasar, and receivables from limited partnerships amounting to $11,969,000 and $9,611,000 at December 31, 1974 and 1973, respectively. In addition, the Company has borrowed $2,500,000 during February, 1975 and anticipates further borrowings.

(b) Such indebtedness bears interest at rates ranging from ¼ of 1% to ¾ of 1% above the banks' prime rate, is secured by certain Canadian oil and gas properties and is repayable in monthly installments in the annual amounts of:

1975	$610,000
1976	830,000
1977	667,000
1978	630,000
1979	118,000

(c) Indebtedness to a trade creditor arises from a financial arrangement the Company has regarding the purchase of certain well equipment granting the creditor a senior secured interest in certain wells. The notes bear interest at 2% above the prime lending rate of certain banks and are payable on demand.

(d) These notes bear interest at ½% above the prime rate of interest charged by a certain bank and are repayable on demand. An additional $435,000 was borrowed subsequent to December 31, 1974. It is anticipated that the indebtedness will be refinanced with $435,000 becoming due during 1975 and the remainder ($630,000) due thereafter. The notes are secured by certain oil and gas properties, investments in limited partnerships and a pledge of future management fees.

4. Shareholders Equity

The Company has adopted a qualified stock option plan for key employees. Under the plan the exercise price is the fair market value of the common stock at the date of grant. The options are exercisable as to 20% of the shares covered thereby immediately, with an additional 20% of such options becoming exercisable at the end of each successive year following the date of each such option grant, and all options must be exercised within five years from date of grant. There were 275,000 shares of the Company's common stock reserved for grants under this plan. Through December 31, 1974 options had been granted to purchase a total of 212,380 shares of common stock at prices ranging from $5.00 to $18.25 per share of which 10,454 shares have been exercised through December 31, 1974. Options for 74,560 shares are currently exercisable at prices ranging from $5.00 to $18.25.

In addition, the Company granted an option not covered by the plan to an officer on August 1, 1972 to purchase 6,800 shares of the common stock of the Company at a price of $4.30 per share exercisable at any time during a period of two years from the date of the grant (the market value of the shares on the date of grant being $8.60 per share). The option with respect to 2,790 shares was exercised during 1973 (market value at date of exercise was $15.50 per share) and the remaining option covering 4,010 shares was exercised in 1974 (market value at date of exercise was $10.00 per share).

Options, exercised in July, 1974 (market value at date of exercise was $10.00 per share), were granted to an underwriter in 1969 to acquire 20,000 shares at $3.50 each (market value at date of grant).

Canadian Quasar has reserved 59,850 shares of its common stock for the exercise of options granted to employees, of which 24,050 shares are currently exercisable. During 1972, an option for 5,150 shares was granted to an officer and director by Canadian Quasar at a price of $3.25 per share (market value on the date of grant was $6.50); during 1973, such options were exercised (market value at date of exercise was $8.15).

Canadian Quasar has entered into agreements with key employees whereby 19,500 shares of Canadian Quasar's common stock were purchased at a price ranging from $8.70 to $10.75 (market value at date of such agreements). The total purchase price is payable three years from date of the agreements ($135,535 March, 1976, $9,900 April, 1976 and $43,500 October, 1976) or in three equal annual installments at the employee's option. The shares purchased have been pledged as security and can only be released upon payment. These employees have entered into agreements with the Company whereby the employees may require the Company to purchase these shares at their cost and the Company has the option to buy these shares at the employee's cost.

5. United States Income Taxes and Proposed United States Tax Law Changes

The Company and its United States subsidiaries file a consolidated federal income tax return. The consolidated group follows the policy of allocating consolidated income tax charges and credits, and providing charges in lieu of taxes, based on each member's contribution to consolidated income or loss. The principal differences between recognition of income for tax and for financial reporting purposes arise primarily from (i) reporting on the cash method of accounting for tax purposes and the accrual method for financial purposes by certain subsidiaries and joint ventures, (ii) differences between financial and tax basis of certain assets, (iii) using accelerated depreciation for tax purposes and straight-line depreciation for financial purposes and (iv) differences between statutory depletion and cost depletion.

With respect to the Company and its United States subsidiaries, the 1974 timing differences, net operating loss carryforwards and unused investment tax credits are summarized below:

	Tax Effect at 48%
Cash and accrual basis timing differences	$270,000
Excess of accelerated over straight-line depreciation	240,000
Losses from investments in limited partnerships	165,000
Other	10,000
1974 timing differences	685,000
Less — timing differences for which no deferred taxes were provided due to availability of net operating loss carryforwards and unused investment tax credits	535,000
Deferred tax provision	$150,000

The income tax provision for 1974 as a percentage of pre-tax income, which does not bear a normal relationship to the statutory tax rate (48%) primarily as a result of certain permanent book-tax differences and timing differences on which no deferred taxes are provided, is summarized below:

Provision based on statutory rate (48%)	$900,000
Losses of foreign subsidiary not included in consolidated group	250,000
Statutory depletion	(550,000)
Timing differences for which no deferred taxes are provided due to availability of net operating loss carryforwards and unused investment tax credits	(535,000)
Excess of financial depreciation and depletion attributable to oil and gas properties with excess financial basis over tax basis	60,000
Other	25,000
Tax provision	$150,000

It was not necessary to calculate a provision for current or deferred income tax charges or credits for 1973 since certain of such differences which reduced that year's financial net income of the Company to a tax loss were not anticipated to enter into the calculation of future taxable income nor result in any future material United States tax liability.

The Company, for tax purposes, has approximately $1,540,000 of net operating loss carryforwards and $575,000 of unused investment tax credits which expire as follows:

	Loss Carryforwards	Unused Credits
1975	$175,000	
1976	865,000	
1977	225,000	
1978	75,000	
1979	200,000	$ 75,000
1980		200,000
1981		300,000

Various bills are pending in Congress, under consideration by Committees of Congress, being publicly proposed by various Congressmen and the President of the United States which, if enacted into law, could reduce or change certain tax benefits presently available to the Company (Note 10).

6. British Columbia Properties

A substantial portion of Canadian Quasar's estimated future net revenues is attributable to shut-in gas wells located in the province of British

Columbia. Such properties are located some distance from marketing facilities and extensive pipeline and production facilities will be required prior to commencement of production.

The provincial government has established a price structure for the sale of gas within the province and also has placed limitations on the export of gas. The provincial government has indicated that the price structure will permit a reasonable profit to the producer and has announced an arrangement whereby it will bear any increased taxes eligible as a result of gas sold to it or its agencies being deemed to be sold at a price in excess of that actually received by producers (such as additional taxes payable to the federal government). Details of this proposal are not yet available.

As a result of the present lack of marketing and production facilities, it is uncertain as to when production will commence. However, it is the opinion of management, based upon independent reservoir engineering projections, that estimated future net revenues are more than sufficient to enable Canadian Quasar to recover its investment in such oil and gas properties.

7. Canadian Taxation and Curtailment of Canadian Operations with Future Limited Partnerships

Canadian Quasar has reported losses for financial purposes since inception and no income taxes have been payable. Drilling and exploration expenses, lease acquisition costs and depreciable equipment costs not yet claimed for tax purposes, aggregating approximately $8,000,000, are available to be deducted in computing income for tax purposes in the future.

On November 18, 1974, the Minister of Finance presented to the House of Commons of the Parliament of Canada the Federal Budget which, among other things, proposed substantial changes in Federal income tax rules applicable to oil and gas income. The Budget proposals have now been passed into law and those proposals with respect to oil and gas taxation are effective as of May 8, 1974. As a result, Canadian Quasar's exploration activities in Canada in the near future will be significantly reduced. Where warranted on an economic basis, Canadian Quasar will continue with the development of its existing oil and gas properties.

8. Repurchase Commitment and Contingent Liabilities

Canadian Quasar and Can-Am are committed to repurchase limited partnership interests, if tendered, at a price based upon a formula contained in each limited partnership agreement, which price is calculated by an independent petroleum engineer and is based primarily on the estimated value of each partnership's assets as of the date of such calculation. Can-Am has agreed with Canadian Quasar to satisfy such commitment to the extent that it has available funds. It is anticipated that Can-Am will use funds provided by its operations, or borrow funds using its assets (including repurchased partnership interests) as collateral to satisfy such repurchase obligations. With regard to partnerships to be formed prior to April 30, 1975, the maximum aggregate amount of such commitment will be equal to 10% annually of total subscriptions. With regard to limited partnerships proposed to be formed subsequent to April 30, 1975, the Company and Can-Am Drilling Programs, Inc. will have a similar repurchase commitment. The repurchase commitment in regard to certain previously formed limited partnerships which may be less than, but in no event will be more than $100,000,000 (depending on the estimated value of such partnerships) on an annual basis is:

1975	$2,400,000
1976	7,600,000
1977	10,100,000
Annually thereafter	10,100,000

Can-Am and Canadian Quasar are also committed to purchase limited partnership interests by direct investment in limited partnerships to be formed through April 30, 1975. Such investment will be equal to at least 1% of the total contributions to the capital of each limited partnership.

Unless specifically excluded from liability, Canadian Quasar and Can-Am, as general partners, are jointly and severally liable for all indebtedness of the limited partnerships in excess of the limited partnerships' assets.

Can-Am is committed under various employment contracts calling for minimum payments aggregating $350,000 over the next four years.

At December 31, 1974, there were several wells which were not completed; consequently, the Company, and the limited partnerships have not incurred all costs for which they were obligated.

9. Statutory Information

Aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers of the Company amounted to $382,000 for the year ended December 31, 1974. During the year, there were a total of 9 directors and 8 officers, 5 of whom served in both capacities.

10. Event (Unaudited) Subsequent to Date of Report of Independent Accountants — Changes in United States Oil and Gas Taxation

Congress has, on March 27, 1975, passed tax legislation which, among other things, provides for a limitation and gradual reduction in the statutory depletion production base and provides for a gradual reduction in the statutory depletion rate. Such legislation with respect to the statutory depletion allowance, is effective as of January 1, 1975. The effect thereof on the Company and its subsidiaries cannot be fully ascertained at this time.

Report of Independent Accounts

To the Board of Directors of
American Quasar Petroleum Co.

In our opinion the consolidated financial statements appearing on pages 20 through 30 of this report present fairly the consolidated financial position of American Quasar Petroleum Co. and its subsidiaries at December 31, 1974 and 1973 and the results of their operations and changes in financial position for the years then ended in accordance with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Price Waterhouse & Co.

Fort Worth, Texas
March 18, 1975

FIVE-YEAR FINANCIAL HIGHLIGHTS REVIEW

	Years ended December 31,				
	1974	1973	1972	1971	1970
Revenue					
Oil and gas sales	**$7,282,000**	$2,487,000	$1,302,000	$1,056,000	$1,214,000
Management fees from limited partnerships	**939,000**	590,000	133,000	26,000	—
	8,221,000	3,077,000	1,435,000	1,082,000	1,214,000
Expenses					
Production and operating	**1,532,000**	708,000	507,000	496,000	593,000
Exploration	—	45,000	106,000	132,000	510,000
Depreciation and depletion	**1,288,000**	913,000	810,000	455,000	412,000
Administrative	**1,789,000**	1,014,000	574,000	596,000	316,000
Interest, net of interest income	**1,856,000**	333,000	153,000	73,000	12,000
Writedown of oil property	—	—	—	—	561,000
Minority interest in losses of subsidiary	**(125,000)**	(69,000)	(62,000)	(20,000)	(12,000)
	6,340,000	2,944,000	2,088,000	1,732,000	2,392,000
Income (loss) before tax and extraordinary item	**1,881,000**	133,000	(653,000)	(650,000)	(1,178,000)
Provision for federal income tax — deferred	**150,000**	—	—	—	—
Net income (loss) before extraordinary item	**1,731,000**	133,000	(653,000)	(650,000)	(1,178,000)
Gain on sale of producing oil property	—	—	—	—	116,000
NET INCOME (LOSS)	**$1,731,000**	$ 133,000	($ 653,000)	($ 650,000)	($1,062,000)
Net income (loss) per common share					
Before extraordinary item	**$0.40**	$0.03	($0.15)	($0.15)	($0.28)
Extraordinary item	—	—	—	—	.03
Net income (loss) per common share	**$0.40**	$0.03	($0.15)	($0.15)	($0.25)

Accounts have been reclassifed to conform to current account reclassifications.

See Management's discussion on page following.

MANAGEMENT'S DISCUSSION OF OPERATIONS

Revenue

The increase in oil and gas sales for 1974 over 1973 as well as the increase in 1973 over 1972 was attributable to the following factors: 1) increase in sales of hydrocarbons from existing fields through successful development drilling; 2) increase in sales of hydrocarbons as a result of new discoveries and 3) increase as a result of higher prices for hydrocarbons produced and sold.

The increase in management fees for 1974 over 1973 and for 1973 over 1972 was primarily attributable to the following factors: 1) the cumulative subscriptions of limited partnerships managed by Can-Am have increased from approximately $34,000,000 at December 31, 1972 to $81,000,000 at December 31, 1973 and $130,000,000 at December 31, 1974; Can-Am's recurring management fees have increased because of this cumulative growth in subscriptions and increases in the limited partnerships' asset values; and 2) as a result of changes in non-recurring management fees paid to Can-Am when the limited partnerships are formed. The decrease in related expenses deducted from management fees during 1974 was primarily due to elimination of sales commissions paid by Can-Am for certain of the limited partnerships and a reduction in commissions paid to the underwriter.

Expenses

The increase in production and operating expenses is attributable to increases in production of hydrocarbons as well as increases due to inflation. Depreciation and depletion has increased as a result of additional investment in, and production from producing oil and gas properties. Administrative costs have increased primarily as a result of increases in the Company's exploration, development and production activities including the opening of new offices in the Rocky Mountain Region. Interest expense has increased as a result of an increase in borrowings and an increase in cost of borrowing money. At December 31, 1972 the Company had approximately $6,000,000 in interest bearing indebtedness compared to approximately $20,000,000 at December 31, 1973 and approximately $36,000,000 at December 31, 1974. The Company's interest expenses was offset by interest income on loans and advances to limited partnerships; which loans and advances aggregated approximately $4,000,000 at December 31, 1972, $12,000,000 at December 31, 1973 and $18,000,000 at December 31, 1974. Minority interest in losses of subsidiaries increased during 1974 resulting from losses of Quasar Petroleum Ltd. ($646,000 during 1974 compared to $358,000 during 1973). Provisions for deferred federal income taxes were necessary for 1974; tax provisions were not required in previous years due to operating losses. See Note 5 to financial statements included herein.

Board of Directors

C. O. Ted Collins, Jr.	*Midland, Texas*
Wilford B. Fultz	*Fort Worth, Texas*
Richard L. Lowe	*Fort Worth, Texas*
Robert G. McCulloch	*Toronto, Ontario*
David A. McMahon	*Fort Worth, Texas*
Walter A. Schmid, Jr.	*Fort Worth, Texas*
Glenn C. Speakman	*Toronto, Ontario*

Officers

Wilford B. Fultz	*Chairman of the Board of Directors*
David A. McMahon	*Vice Chairman of the Board of Directors*
Walter A. Schmid, Jr.	*Chairman of the Executive Committee*
Richard L. Lowe	*President*
C. O. Ted Collins, Jr.	*Executive Vice President*
Bobby F. Abernathy	*Vice President*
Albert J. Cohen	*Secretary and Treasurer*
Norman D. Pool	*Controller*

Legal Counsel

Turner, Hitchins, McInerney, Webb & Hartnett	*Dallas, Texas*
Jones, Black, Gain, & Laycraft	*Calgary, Alberta*

Offices

General Office	*2200 Continental National Bank Building Fort Worth, Texas 76102 (817) 335-4701*
Exploration Offices	*606 Vaughn Building Midland, Texas 79701 (915) 682-9411*
	720 Calgary Place No.1 Calgary, Alberta T290L4 (403) 261-5820
	Suite 1415 233 O'Keefe Avenue New Orleans, Louisiana 70112 (504) 586-8353
	1630 Denver Club Building 518 17th Street Denver, Colorado 80202 (303) 623-5775
Field Offices	*Suite 435 Petroleum Building Jackson, Mississippi 39201 (601) 948-3481*
	Pacific Western Life Building 152 North Durbin Casper, Wyoming 82601 (307) 237-9501

Registrar and Transfer Agents

The Royal Trust Company	*Calgary, Alberta and Toronto, Ontario*
Continental National Bank	*Fort Worth, Texas*

Shares Listed

Toronto Stock Exchange (Symbol AQPT)
NASDAQ (Symbol AQAS)—Over-the-Counter (U.S.)

Independent Accountants

Price Waterhouse & Co.	*1200 Commerce Building Fort Worth, Texas 76102*

Principal Subsidiary Companies

Quasar Petroleum, Ltd.	*(81% Owned)*
Canadian-American Resources Fund, Inc.	*(100% Owned)*

American Quasar Petroleum Co.
2200 Continental National Bank Building
Fort Worth, Texas 76102